Idaho's Forest Products Industry Current Conditions and 2008 Forecast

Presented to the

Joint Economic Outlook and Revenue Assessment Committee

Idaho State Legislature

Presented by Jane A. Wittmeyer

VP Idaho Affairs

Intermountain Forest Association

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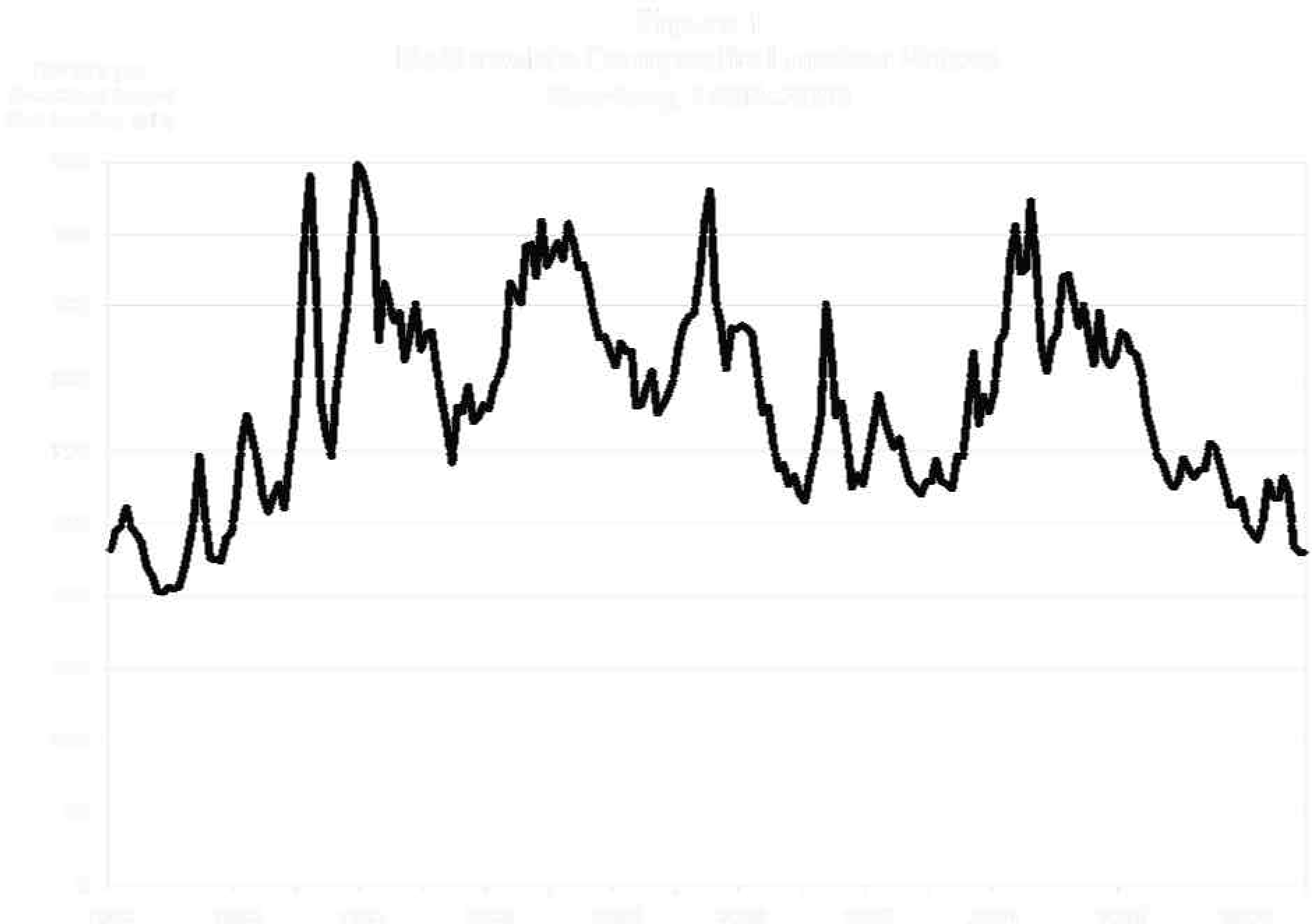
Operating Conditions

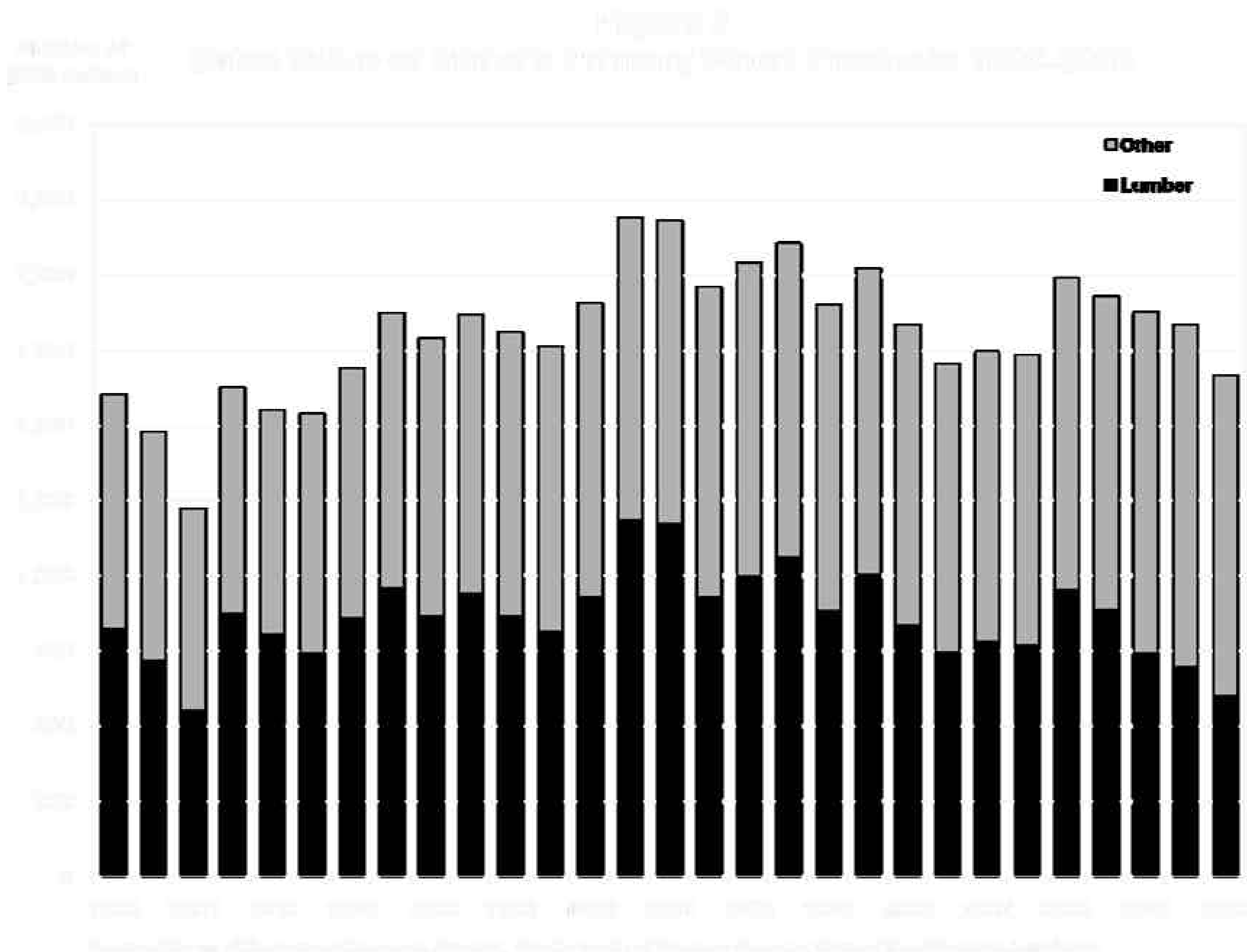
- The collapse of the U.S. housing industry and related global financial crisis had a substantial negative impact on Idaho's forest products industry in 2008.
- Annual U.S. housing starts peaked in 2005 at just over 2 million, and by the end of 2008 housing starts were down to their lowest level in more than six decades, at less than 1 million.
- With weak demand, lumber prices fell about 33 percent from 2005 to 2008 (Figure 1).



Source: Random Lengths Publications.

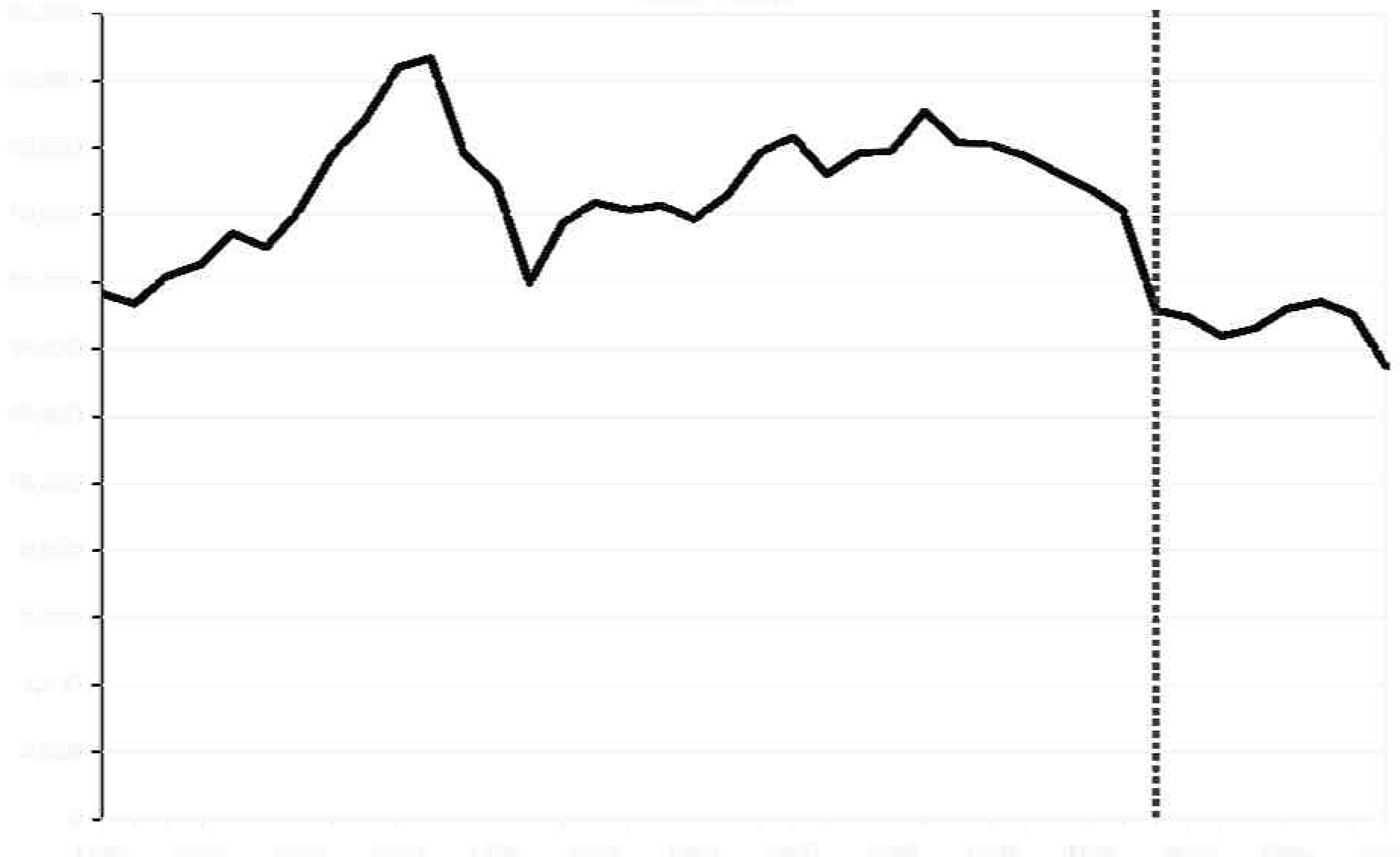
Sales Value of Idaho's Primary Wood and Paper Products

- **The estimated sales value of Idaho's primary wood and paper products manufacturers for 2008 was just under $1.7 billion, down approximately $170 million (approximately 9 percent) from 2007.**
- **See Figure 2.**


Other
Lumber

Number of Forest Business Sector Workers

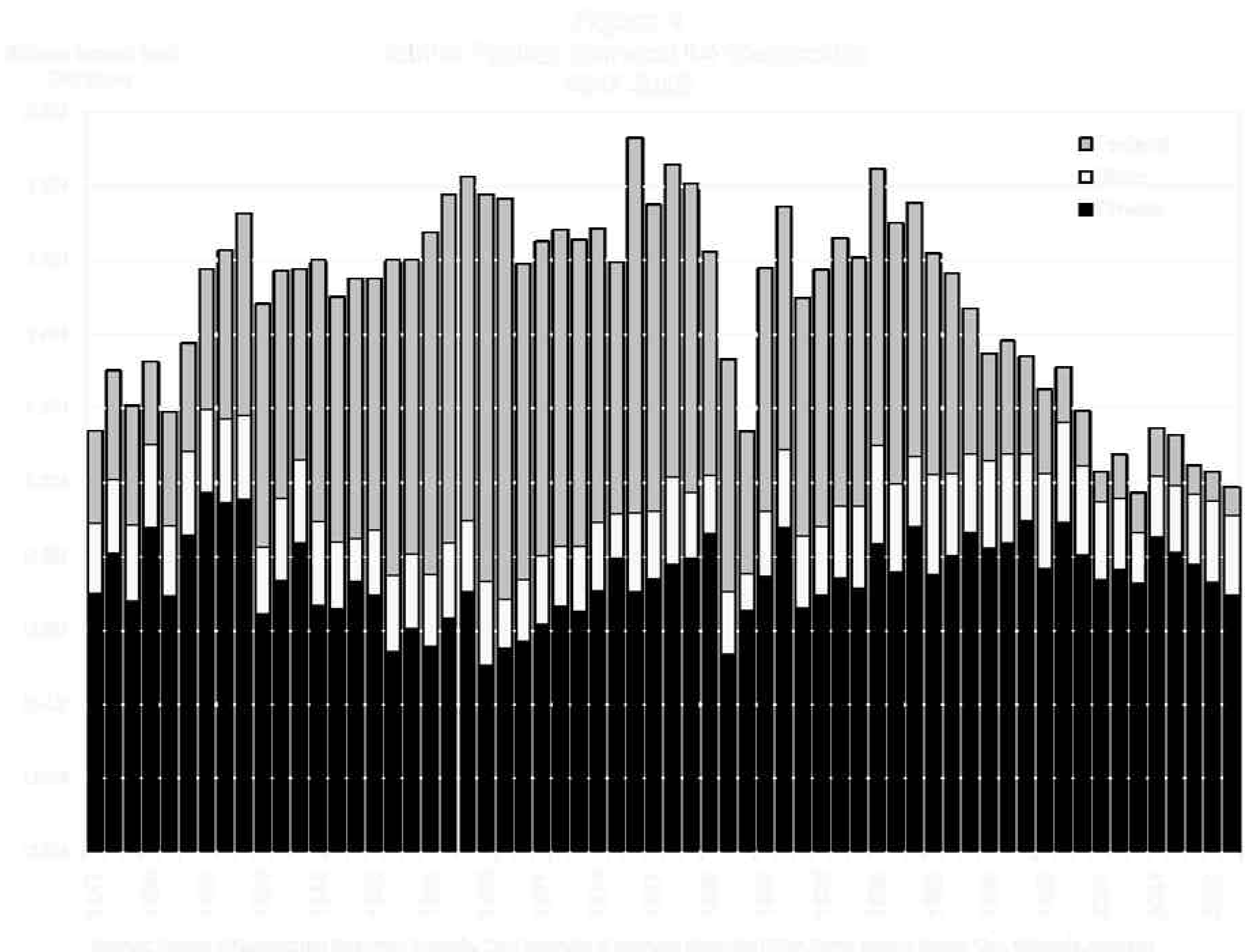
- The number of forest industry workers (including the self-employed) was estimated at 13,500 in 2008, down by about 10 percent or 1,500 workers from 2007. See Figure 3.



Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2009

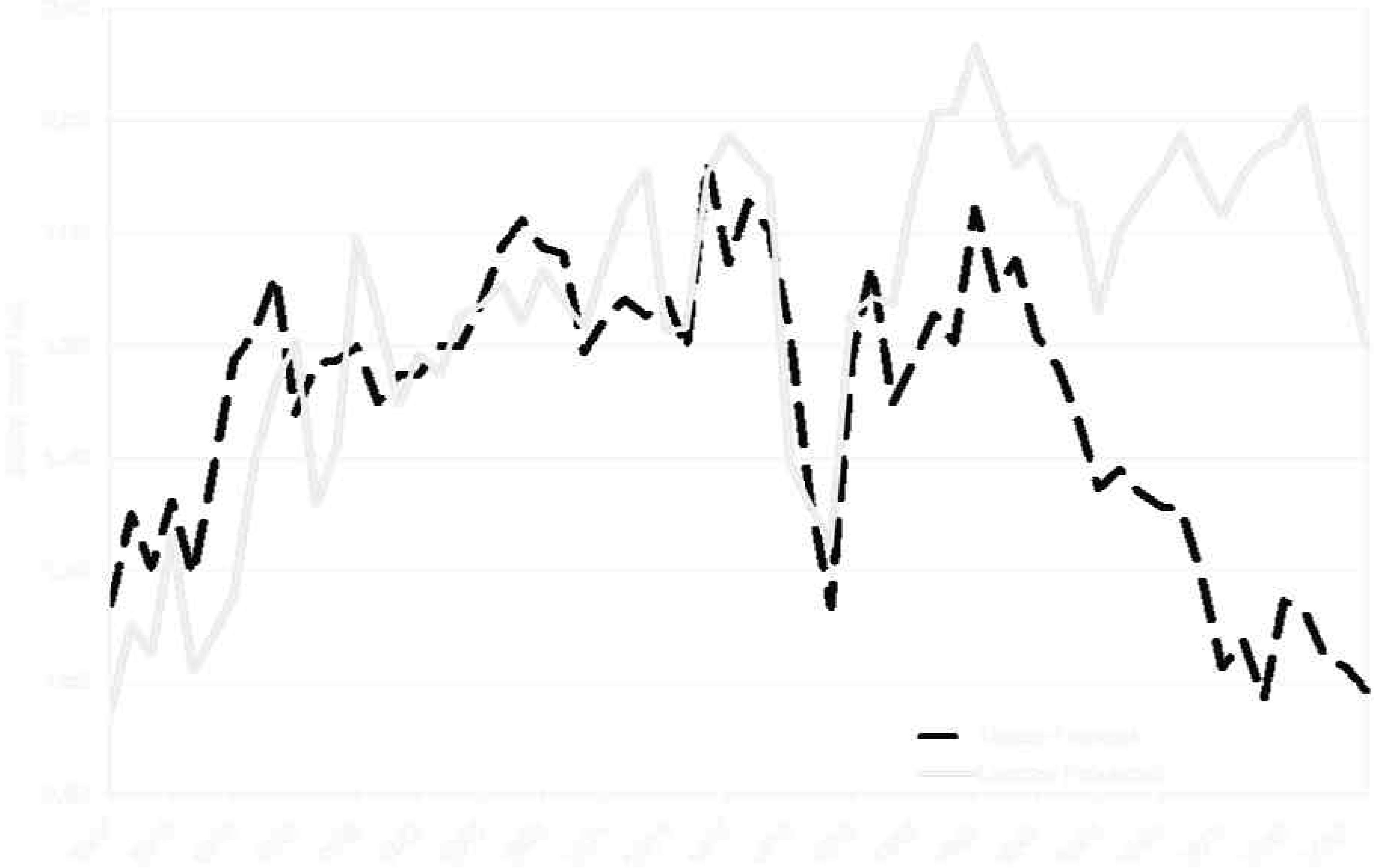
Timber Harvest

- Timber harvest declines were seen across all timber ownership classes (Figure 4), with lower prices offered by mills being a major factor.
- Idaho's estimated timber harvest volume during 2008 was just below 1.0 billion board feet, down 4 percent from 1.03 billion board feet in 2007 (Figures 4 and 5).
- Private land harvest, including industry and non-industrial private lands, was about 5 percent lower than during 2007.
- Harvest from federal lands was down about 5 percent, bringing federal harvest levels near their lowest level since World War II (Figure 4).
- Harvest from state lands was down about 2 percent from 2007.



Lumber by the Numbers

- Production of lumber, the largest component of Idaho's forest products industry, fell to an estimated 1.6 billion board feet in 2008 from 1.75 billion board feet in 2007.
- **See Figure 5.**



Timber Harvest

- Note that timber harvest, expressed in board foot Scribner and lumber production expressed in board foot lumber tally were roughly equal from 1947 to 1983 (Figure 5).

- After that time, timber harvest began to decline while lumber production continued to increase. This was due to several factors.
  - Improvements in sawmill efficiency.
  - In the mid 1980s, Idaho's sawmills started to incorporate quality control and size control practices, improved saw blade technology, and computerized process control.

Timber Harvest

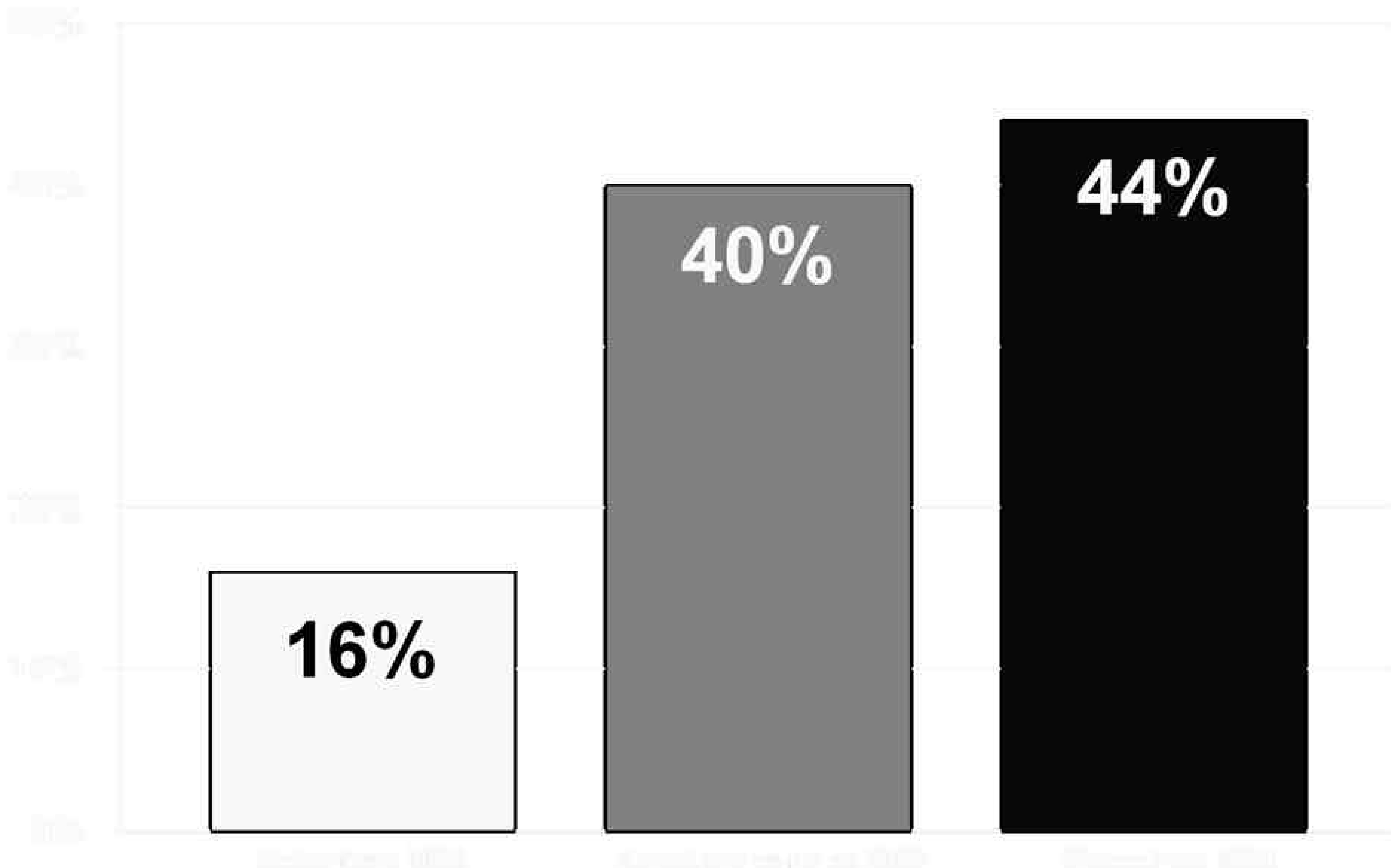
- A second factor – decline of Idaho's plywood industry in the 1980s,
- And a higher proportion of harvested timber went to Idaho sawmills.
- In the 1980s many sawmills began to re-tool to handle smaller-diameter logs.
- By 2003, nearly 60 percent of all logs processed in Idaho were less than 10 inches in diameter (measured at the small end);
- Some mills were processing very small-diameter logs (less than 6 inches in diameter).

Outlook for 2009

- U.S. housing starts for 2009 are expected to decline further, and expectations are that the U.S. and global recession will likely last through 2009 and perhaps into 2010.
- Idaho wood products manufacturers indicated a pessimistic outlook for 2009, with 44 percent of the survey respondents expecting operating conditions to worsen, and another 40 percent expecting no improvement in 2009 (Figure 6).
- Thirty-seven percent of respondents indicated they expected to decrease employment during 2009, while only 11 percent expected to increase employment.

Production and Sales 2009 Expectations

- 44% of Idaho wood products manufacturers stated they expect profits to decrease from 2008 to 2009;
- 22% expect to see profits increase;
- 14% anticipate an increase in production;
- 16% expect greater sales in 2009;
- 16% expect to see product price increases;
- 51% expect prices to stay at 2008 levels.


16%
40%
44%

The Reason for Producer Pessimism

- One of IFA’s efficient and modern mill provided these numbers:
  - -Revenues in September 2008- $22 m
  - -Revenues in December 2008-$10 m

Shipments of Finished Product

Year-over-year decline is not as dramatic as the past two months;

Acute slowdown began in November.

Monthly shipments as follows:

- September 51,429 mbf
- October 48,731 mbf
- November 40,110 mbf
- December 29,279 mbf
- The credit crisis and its related impacts on the economy have impacted housing especially hard.
- First quarter of ’09 will be very much like December.
- Overall the outlook for 2009 is for demand to be about 85% of 2008 levels.

Areas of Concern

- **General economic and market conditions;**
- **Raw material availability and correct pricing in this market;**
- **Forest fragmentation;**
- **Concerns over timber availability generally focus on state timber availability, raw product pricing and national forest land management.**
- **Mill Manager Concerns: keeping mills operating, finding finished product markets, increases in health insurance, transportation issues and costs, energy and the availability of qualified personnel.**

Canadian Lumber Agreement

- Canadians agreed to limit amount of exports by province, or collect export taxes without a quantity limit.
- Complex agreement.
- US initiated formal arbitration in 2007.
- Result seemed to be a constraint.
- Canadians creative at getting around.
- U.S. dollar not helping.

Good News

- Idaho FPBS has comparative advantage of being closer to the wood basket;
- Energy costs are lower;
- IDL continues state timber harvest program and plans for future;
- IFA/ALC continue joint work on Workforce Development to meet future needs;
- Emerging markets in energy and carbon credits;
- Landowner Conservation Initiatives would assist in keeping forests less fragmented.

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Authors

- The University of Montana’s Bureau of Business and Economic Research (BBER), in co-operation with the Forest Products Department at the University of Idaho, conducted a survey of Idaho’s wood products manufacturers in late November and early December of 2008. The survey had a response rate of nearly 70 percent and secured responses from 63 of Idaho’s largest wood processing facilities as well as numerous smaller facilities.

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